FDIC State Profile

WINTER 2003

Kansas

Kansas labor economy shows modest signs of improvement in the third quarter.

- The Kansas economy added jobs in September, only the second month in the previous two years where employment has not declined (see Chart 1).
- While manufacturing employment continued to decline, these losses were offset by strong gains in wholesale and retail trade, finance, insurance and real estate, and the government sector.
- The unemployment rate was reported at 4.7 percent in September, compared to 5.0 percent a quarter earlier, and 5.2 percent one year earlier.

Drought situation improves in 2003, but effects persist.

- Rain fall and snowmelt in 2003 have reduced the severity of drought in Kansas, but most of the state still remains abnormally dry, as shown in Map 1.
- Reservoirs, streams, and farm ponds remain below normal levels, reflecting the shortages experienced in 2002.
- An August 4 survey by the United States Department of Agriculture rates 55 percent of the state's pasture and rangeland as "Poor" or "Very Poor" suggesting continuing risks to cattle ranchers.

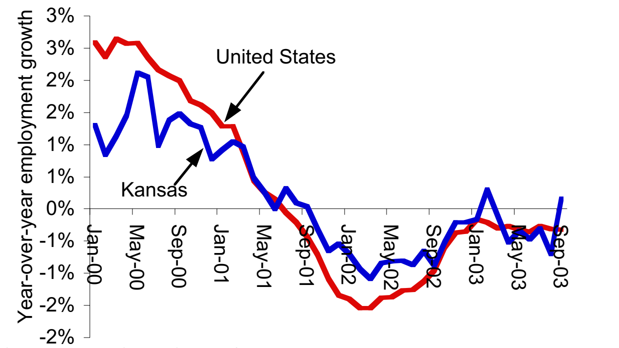
Depopulation in rural areas continues to be a challenge.

- Sixty-seven of 105 counties in Kansas have lost population since 1970, and 22 of those counties also lost population at an increasing rate in the 1990s (see Map 2).
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas to seek better employment opportunities.
- Counties that are losing population more rapidly may lose economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Continuing drought conditions are contributing to weakening asset quality among many of the state's farm banks.

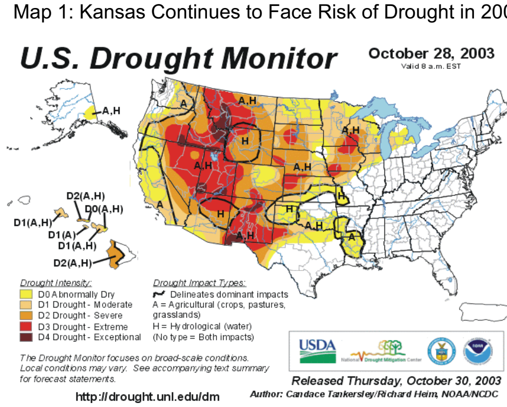
- Northern Kansas remains in "moderate" drought, following "moderate" to "severe" drought conditions in 2001 and

Chart 1: Kansas Employment Grows in September 2003

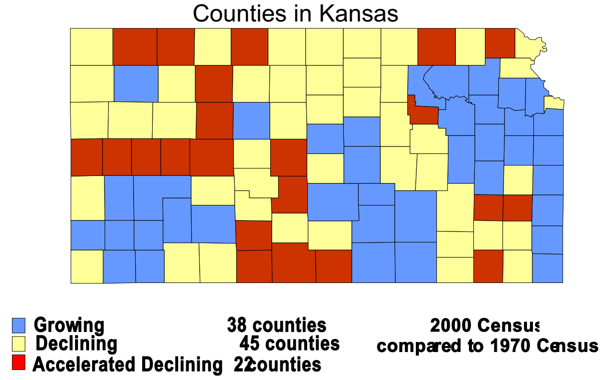


Source: Bureau of Labor Statistics/Haver Analytics

Map 1: Kansas Continues to Face Risk of Drought in 2003



Map 2: Depopulation Affects Most Rural Counties in Kansas



2002. These weather problems follow four years of very low crop prices that left many farm banks with substantial levels of carryover debt.

- Chart 2 shows that farm banks in areas of prolonged drought (predominately in Nebraska and northwest Kansas) report higher loan delinquency levels than areas less seriously affected by the drought.
- On a positive note, the March 2003 median capital ratio of 10.2 percent reported by banks headquartered in Kansas remains high by historical standards and well above levels during the 1980's farm crisis and 1988 drought.

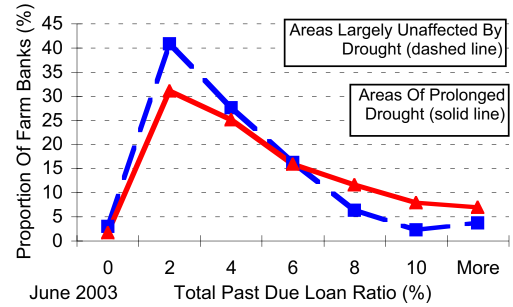
Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Kansas.

- Many institutions operating in the state's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 3).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened significantly during the past two years. Office vacancy rates have risen to the highest level in nearly a decade.

Community institutions in Kansas continue to face funding challenges.

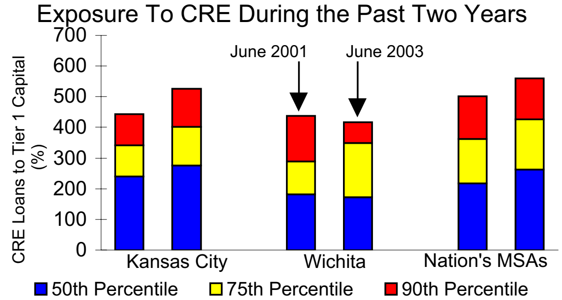
- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits of total assets ratio for community institutions declined from 82 percent to 73 percent between June 1993 and June 2003.
- To counter declining deposits, community institutions headquartered in Kansas increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, has increased dramatically. Between June 1993 and June 2003, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 7.8 percent to 16.9 percent.
- The weak economy and significant declines in the stock market have prompted a great shift of deposit funds into the banking system. However, as seen in Chart 4, most of the benefit has accrued to the nation's largest banks.

Chart: 2 Farm Banks Experiencing Prolonged Drought Report Higher Loan Delinquency



Source: Bank and Thrift Call Reports, farm banks in Kansas City Region

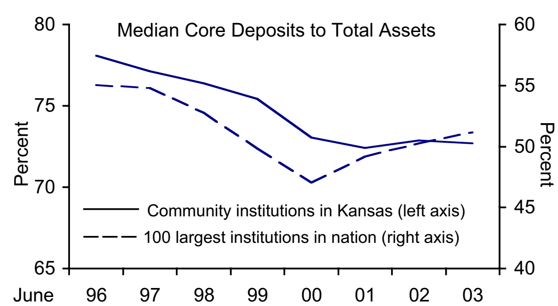
Chart 3: Institutions in Kansas Have Increased Exposure To CRE During the Past Two Years



CRE loans are loans made for construction or development, multifamily housing or nonresidential real estate.

Source: Bank and Thrift Call Reports, excluding new and specialty banks

Chart 4: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and thrift call reports. Community institutions are FDIC-insured institutions with total assets under $250 million headquartered in Kansas.

- See "Kansas City Regional Perspectives Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenges," *FDIC Outlook*, Spring 2003, for further discussion about funding.

Kansas at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	379	385	393	392	408
Total Assets (in thousands)	52,179,566	49,436,339	50,741,240	47,553,961	42,950,623
New Institutions (# < 3 years)	8	8	8	7	5
New Institutions (# < 9 years)	18	17	16	13	11

Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.48	9.59	9.67	9.68	9.45

Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.83%	1.78%	1.93%	1.60%	1.63%
Past-Due and Nonaccrual > = 5%	52	39	45	23	35
ALLL/Total Loans (median %)	1.42%	1.41%	1.41%	1.40%	1.45%
ALLL/Noncurrent Loans (median multiple)	1.70	1.91	1.70	2.35	2.05
Net Loan Losses/Loans (aggregate)	0.32%	0.27%	0.26%	0.26%	0.39%

Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	13	22	23	12	13
Percent Unprofitable	3.43%	5.71%	5.85%	3.06%	3.19%
Return on Assets (median %)	1.08	1.13	1.11	1.23	1.13
25th Percentile	0.71	0.80	0.74	0.86	0.81
Net Interest Margin (median %)	3.98%	4.14%	4.15%	4.34%	4.13%
Yield on Earning Assets (median)	5.85%	6.75%	8.11%	8.08%	7.70%
Cost of Funding Earning Assets (median)	1.87%	2.57%	3.96%	3.78%	3.57%
Provisions to Avg. Assets (median)	0.09%	0.09%	0.08%	0.06%	0.04%
Noninterest Income to Avg. Assets (median)	0.61%	0.59%	0.59%	0.56%	0.54%
Overhead to Avg. Assets (median)	2.90%	2.91%	2.96%	2.95%	2.87%

Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	73.58%	74.46%	75.57%	73.92%	69.27%
Loans to Assets (median %)	61.22%	61.97%	63.08%	62.96%	59.50%
Brokered Deposits (# of institutions)	47	43	40	31	26
Bro. Deps./Assets (median for above inst.)	3.07%	3.27%	2.54%	1.92%	2.18%
Noncore Funding to Assets (median)	15.81%	15.55%	15.97%	15.42%	13.18%
Core Funding to Assets (median)	71.70%	72.21%	71.89%	72.90%	75.31%

Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	234	238	244	248	257
National	99	104	108	107	110
State Member	29	26	24	20	24
S&L	10	10	10	10	10
Savings Bank	7	7	7	7	7
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	291	20,700,759	76.78%	39.67%
Kansas City MO-KS	44	12,756,466	11.61%	24.45%
Wichita KS	27	7,195,021	7.12%	13.79%
Topeka KS	10	10,788,588	2.64%	20.68%
Lawrence KS	7	738,732	1.85%	1.42%